

SPECIAL TERMS AND CONDITIONS

NUMBER: 11-W-00130/0

TITLE: Independent Choices

AWARDEE: Oregon Senior and Disabled Services

I. GENERAL CONDITIONS

- A. All special terms and conditions prefaced with an asterisk (*) contain requirements that must be approved by the Health Care Financing Administration (HCFA) prior to program implementation. No Federal Financial Participation (FFP) will be provided for section 1115 program implementation until HCFA has approved these requirements. FFP will be available for project development and implementation, compliance with special terms and conditions, the readiness review, etc. Unless otherwise specified, where the State is required to obtain HCFA approval of submission, HCFA will make every effort to respond to the submission within 45 days of receipt of submission. HCFA and the State will make every effort to ensure that each submission is approved within 60 days from the date of HCFA's receipt of the original submission.
- B. HCFA may suspend or terminate any project, in whole or in part, at any time before the date of expiration whenever it determines that the awardee has materially failed to comply with the terms of the project. HCFA will promptly notify the awardee in writing of the determination and the reasons for the suspension or termination, together with the effective date.
- C. HCFA reserves the right to withdraw waivers and cost not otherwise matchable expenditures at any time if it determines that continuing them would no longer be in the public interest. If a waiver or cost not otherwise matchable is withdrawn, HCFA will be liable for only normal closeout costs.
- D. The State may suspend or terminate this demonstration in whole or in part at any time before the date of expiration. The State will promptly notify HCFA in writing of the reasons for the suspension or termination, together with the effective date. If the demonstration is withdrawn, HCFA will be liable for only normal closeout costs.
- E.* During the developmental phase of the demonstration, the awardee shall develop and submit detailed plans to protect the confidentiality of all project-related information that identifies individuals. The plan, which is subject to review and approval by the HCFA project officer, must specify that such information is confidential, that it may not be disclosed directly or indirectly except for purposes directly connected with the conduct of the project, and that informed written consent of the individual must be obtained for any disclosure.

- F.* No later than 60 calendar days from receipt of this award, the awardee must provide a complete plan to phase-down and phase-out the demonstration. At a minimum, this plan must include the manner in which beneficiaries will be notified of the cessation of the demonstration and shifted to other sources of care. The awardee may not begin the delivery of services in this demonstration until this plan has been received and approved by the project officer. If assistance is needed, the project officer is prepared to discuss the expected content.

II. FUTURE LEGISLATIVE CHANGES

- A. All requirements of the Medicaid program expressed in laws, regulations, and policy statements, not expressly waived or identified as not applicable in the award letter of which these special terms and conditions are part, will apply to the Independent Choices demonstration. To the extent the enforcement of such laws, regulations, and policy statements would have affected State spending in the absence of the demonstration in ways not explicitly anticipated in this agreement, HCFA will incorporate such effects into a modified budget limit for the Independent Choices demonstration. The modified budget limit would be effective upon enforcement of the law, regulation, or policy statement. HCFA will have 2 years after the demonstration award date to notify the State that it intends to take action. The growth rates for the budget neutrality baseline, as described in Attachment B, are not subject to this special term and condition. If the law, regulation, or policy statement cannot be linked specifically with program components that are not affected by the Independent Choices demonstration, the effect of enforcement on the State's budget limit will be proportional to the size of the Independent Choices demonstration in comparison to the State's entire Medicaid program (as measured in aggregate medical assistance payments).
- B. The State will, within the timeframe specified in law, come into compliance with any changes in Federal law affecting the Medicaid program that occur after the demonstration award date. To the extent that a change in Federal law, which does not exempt State section 1115 demonstrations, would affect State Medicaid spending in absence of the demonstration, HCFA will incorporate such changes into a modified budget limit for the Independent Choices demonstration. The modified budget limit will be effective upon implementation of the change in Federal law, as specified in law. If the new law cannot be linked specifically with the program components that are or are not affected by the Independent Choices demonstration (e.g., laws affecting sources of Medicaid funding), the State will submit its methodology to HCFA for complying with the change in law. If the methodology is consistent with Federal law and in accordance with Federal projections of the budgetary effects of the new law in Oregon, HCFA would approve the methodology. Should HCFA and the State, working in good faith to ensure State flexibility, fail to develop within 90 days a methodology to revise the without-waiver baseline that is consistent with Federal law and in accordance with Federal budgetary projections, a reduction in Federal payments will be made according to the method applied in non-demonstration States.

- C. The State may submit to HCFA a request for an amendment to the Independent Choices demonstration to request exemption from changes in law occurring after the waiver award date. The cost to the Federal government of such an amendment must be offset to ensure that total projected expenditures under a modified Independent Choices demonstration do not exceed projected expenditures in the absence of the Independent Choices demonstration (assuming full compliance with the change in law.)

III. REPORTING REQUIREMENTS

- A. The awardee shall assume responsibility for the accuracy and completeness of the information contained in all technical documents and reports submitted. The reporting requirements indicated in these special terms and conditions are distinct from the reporting requirements necessary for project evaluation.
- B. Within 30 days of the date of approval, the State shall develop and submit a detailed schedule depicting milestone activities (including sub-tasks), project reports, and deliverables to be completed during the demonstration (including both the pre-implementation and implementation periods). The State must provide adequate assurances that all preliminary milestone activities (i.e., during the pre-implementation period) will be completed prior to the project's implementation period.
- C.* The State shall prepare an AOperational Protocol@that details the management and operational features of the demonstration, expanding on the proposal and incorporating activities and decisions made during the developmental phase of the demonstration. The protocol must be submitted and approved by the HCFA project officer before implementation of the demonstration. HCFA shall provide preliminary review and comments on the proposed operational protocol within 60 days of receipt. The protocol shall detail:
- the State-specific operational design of the demonstration;
 - the assignment of oversight and management responsibilities;
 - the ongoing monitoring tasks, and State personnel responsible for specific oversight functions;
 - the provisions for making State contacts available to properly authorized HCFA and SSA officials to confirm beneficiary participation data when requested;
 - the mechanisms the State will utilize to assure that the care needs of vulnerable populations participating in this demonstration (i.e., the elderly and disabled) are satisfied, and that funds provided to these beneficiaries are used appropriately;
 - the provisions for determining participant eligibility;
 - the enrollee grievance and appeal rights;

- a description of the State's relationships and arrangements with organizations providing enrollment/assessment, counseling, training, and fiscal intermediary services;
 - the financial management plan, including procedures for mandatory testing of consumers related to fiscal and legal responsibilities;
 - the marketing strategy, and provisions for consumer education (including examples of marketing material);
 - the provisions for enrollment and disenrollment;
 - procedures for establishing and maintaining waiting lists for participation in the demonstration,
 - the procedures for conducting consumer background checks on potential providers and informing consumers of the results of the criminal background checks;
 - a description of how consumer care/purchasing plans are developed under the demonstration;
 - a description of the State's process for reviewing and approving consumer requests for special purchases with accumulated funds;
 - the description of the proposed payment methodology, including a delineation of services to be cashed out, algorithm(s) used to establish payment amounts, and mechanisms to be used to review and adjust payment amounts as the need arises;
 - the quality assurance plan;
 - the data collection and reporting plan, and associated requirements for participating service providers (i.e., fiscal intermediary services);
 - the procedures for reporting expenditures subject to the budget neutrality cap, including detailed procedures regarding the tracking and reporting of administrative costs;
 - the procedures for tracking and reporting eligibles and eligible member months under the demonstration; and
 - the phase-down plan.
- D. The awardee shall submit quarterly progress reports, which are due 60 days after the end of each quarter. The first quarterly report is due at the end of the fourth month following the award. The reports should include a discussion of events occurring during the quarter that affect health care delivery, quality of care, financial results, and other operational issues. An Attachment to each quarterly report shall further provide the database information identified in special term and condition IV-A.
- E. No later than 120 days after the end of each award year, the awardee will submit a draft annual report documenting accomplishments, project status, quantitative and case study findings, quality assurance activities, and policy and administrative difficulties. Within 30 days of receipt of comments from the HCFA project officer, a final annual report will be submitted.

- F. A final report should be submitted to the HCFA project officer for comments. HCFA's comments should be taken into consideration by the awardee for incorporation into the final report. The final report shall be submitted to the HCFA project officer no later than 90 days after the completion of the project.
- G. The final report of the project may not be released or published without permission from the HCFA project officer within the first 4 months following the receipt of the report by the HCFA project officer. The final report will contain a disclaimer that the opinions expressed are those of the awardee and that the report does not necessarily reflect the opinions of HCFA.
- H. For 2 years after completion of the project, the awardee shall notify the HCFA project officer prior to formal presentation of any report or statistical or analytical material based on information obtained through this award. Formal presentation includes papers, articles, professional publications, speeches, and testimony. In the course of this research, whenever the principal investigator determines that a significant new finding has been developed, he or she will immediately communicate it to the HCFA project officer before formal dissemination to the general public.

IV. DATA REQUIREMENTS

- A. The awardee shall construct a database of all participants in the demonstration. This database shall, at a minimum, include:
 - identifying information for all participants (name, address, social security number, telephone number);
 - the participation start date;
 - the effective date a participant no longer receives cash;
 - the actual participation stop date (i.e., the date participant ceases receiving services under the demonstration);
 - an indication of whether the participant was enrolled in the demonstration as a *Anew@consumer* or a “continuing” consumer for purposes of calculating the new to continuing consumer enrollment ratio caps; and
 - information on any evaluation comparison group.

The information in this database will be used to generate an Attachment to each quarterly report providing individual-level and aggregate data for all participants in the demonstration.

- B. The awardee will designate at least one individual and one alternate who will be responsible for the accuracy of this database. The State will provide the names and telephone numbers of such designated individuals (and any successors, as appropriate) to the HCFA project officer. Such designated individuals must be available on demand to properly authorized HCFA and SSA officials to provide beneficiary participation data when requested.

- C. At any phase of the project, including at the project's conclusion, the awardee, if so requested by the project officer, shall submit copies of analytic data file(s), with appropriate documentation, representing the data developed/used in end-product analyses generated under the award. The analytic file(s) may include primary data collected, acquired or generated under the award and/or data furnished by HCFA. The content, format, documentation, and schedule for production of the data file(s) will be agreed upon by the principal investigator and the HCFA project officer. The negotiated format(s) could include both file(s) that would be limited to HCFA internal use and file(s) that HCFA could make available to the general public.

V. OTHER REQUIREMENTS

- A. The State agrees that it will comply with all applicable Federal statutes relating to nondiscrimination. These include, but are not limited to: the Americans with Disabilities Act, Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973 and the Age Discrimination Act of 1975. As part of the review of the protocol that the State is required to submit, the Department of Health and Human Services will examine the State's proposed operational procedures to ensure their consistency with the requirements set forth in the above Federal statutes.
- B. The State will request modifications to the demonstration by submitting a written request, with a detailed justification, to HCFA for approval. All desired modifications are to be submitted to HCFA at least 90 days prior to the proposed date of implementation of the change.
- C. Any change to the health assessment tool used to determine consumer assistance with activities of daily living in this demonstration and the 1915(c) waiver will require advance approval and formal modification to this demonstration.
- D. Prior to project implementation (and as a part of the Operational Protocol), the State shall develop a quality assurance plan for this project which provides for:
- annual surveys of participating providers (i.e., case management staff and fiscal intermediaries) for purposes of identifying common issues among consumers that require additional consumer training or additional monitoring on the part of the State.
 - annual satisfaction surveys for participating long term care consumers.

The proposed surveys will be reviewed and approved by the HCFA project officer. At the request of the project officer, individual survey results will be shared with HCFA. Aggregate survey results will be included in the annual quality assurance reports discussed in special term and condition F of this section.

- E. The State shall designate a single staff member (or a very limited number of staff members) for demonstration participants to contact with specific issues/concerns.
- F. The quality assurance plan developed shall demonstrate a continuous quality improvement focus, and shall require the State to undertake a specific Corrective Action Plan (CAP) when deficiencies are identified, or when consumer surveys reveal potential problems. Annual quality assurance reports will be prepared and submitted to the HCFA project officer.
- G. The State shall arrange for, and its subcontractors shall agree to participate in, an independent evaluation of the project. The State shall provide, at no cost to HCFA, historical data and data obtained throughout the demonstration, including individual-level data for both demonstration participants and non-participants, as specified by HCFA (in consultation with the project evaluator).
- H. As a part of the enrollment process, the State will obtain signed informed consent from eligible consumers who wish to participate in this demonstration project. Such informed consent will assure that consumers are aware of the following: (1) the voluntary nature of their participation in the demonstration; and (2) how the provision of health care will be modified as a result of the demonstration design. The State may include such necessary information on an enrollment form. Forms used for this purpose must be reviewed and approved by the HCFA project officer.
- I. The State will conduct criminal background checks on all potential employees identified by participants of the demonstration. The State will inform the participants of the results of the criminal background checks. The procedures for identifying potential providers for purposes of conducting criminal background checks and informing consumers of the results of those checks will be submitted by the State in the Operational Protocol.
- J. To ensure the appropriate payment of all relevant Federal taxes by participating consumers on behalf of employed providers, the State will implement procedures that reflect the requirements below. The procedures will be submitted by the State in its Operational Protocol:
 - Consumers are required to pass a mandatory test demonstrating competency with fiscal and legal obligations;
 - Consumers who do not pass the competency test are required to use a fiscal intermediary in order to remain in the demonstration;
 - Consumers who pass the test will be offered a choice of using a fiscal intermediary to handle payment functions or assuming the cash payment function themselves; and
 - For consumers who do assume the cash payment responsibilities, the State will conduct random audits of consumer bank accounts and employee payment records to ensure the appropriate payment of all relevant taxes.

K.* Prior to the beginning of the demonstration's operational phase, the State must submit evidence of the following:

- sufficient availability of fiscal intermediary services for consumers who do not pass the mandatory test on employer responsibilities;
- case management staff for purposes of monitoring participant health and welfare; and
- training opportunities and support services available for participants of the demonstration who require assistance with their fiscal and legal responsibilities.

No FFP will be provided for services received under this demonstration until HCFA supplies written approval that such provider capacity is acceptable.

L.* Using State guidelines on readability and accuracy, the State will approve all direct marketing materials used to enroll Medicaid clients before such marketing materials are disseminated under the demonstration. Such marketing guidelines shall require that all written material be understandable at a 5th or 6th grade reading level, and that an alternative format (i.e., other than written material) be made available to Medicaid consumers. Direct marketing material is defined as marketing materials in all media, including brochures and leaflets, newspaper, magazine, radio, television, billboard, and yellow page advertisements, and presentation materials used by marketing representatives. In addition, it includes State-developed materials mailed to, distributed to, or aimed at Medicaid recipients, and any material that mentions (in relation to this demonstration project) Medicaid, Medical Assistance, Title XIX, SSI, Supplemental Security Income, benefits from SSA, or Social Security. HCFA reserves the right to review copies of State marketing materials and to require modifications prior to dissemination if deemed necessary. Marketing materials related to this demonstration may not be disseminated until HCFA approves the marketing section of the Operational Protocol.

M. This demonstration has been designed to assist individuals who are capable of directing their own care. However, individuals not capable of directing their own care will not be deliberately excluded from participating in the demonstration. Specifically, persons who require the assistance of others for care planning, or for whom authorization for care must be obtained from a proxy (e.g., a parent or legal guardian/representative) will not be excluded from program participation.

N. Cash payments provided under this demonstration program are not intended to pay for or supplant informal care services that have routinely and previously been available to project participants. Such ongoing informal care services will be identified as a part of each participant's care plan.

O. The State will be able to limit the number of individuals who participate in the demonstration to 300 consumers, with 100 consumers eligible to participate in each of the three geographic areas. Should the 300-consumer participation limit be reached, individuals will still be eligible for Medicaid in Oregon. The State may not limit enrollment in Medicaid.

- P. If the demonstration reaches the enrollment ceiling, the State may consider the enactment of a waiting list. The State should describe any waiting list mechanism in the Operational Protocol, including: how the list would be maintained, how potential participants will be informed of their placement and standing on the list, how often potential participants will be informed of their standing, and how case managers and other State staff will be able to access and verify a consumer's standing on the waiting list.
- Q. In order to control the growth rate of $A_{new@consumers}$ in the demonstration to the growth rate of new consumers that would be observed for personal care and home and community based services in absence of the demonstration, the following limits will be applied:
- Across all geographic regions, a ratio of $A_{new@}$ to $A_{continuing@consumers}$ will be applied of one to two (1:2). In other words, the number of new consumers in the demonstration is limited to 50 percent or half of the number of continuing participants in the demonstration. Moreover, an absolute limit of 100 participants is permitted as $A_{new@consumers}$ out of the 300 total participation limit established by the State.
 - The State will assess the ratio every 6 months. At the end of every 6-month period, the State must apply the 50 percent test. If the limit is exceeded, the State must submit an action plan to HCFA that describes how the State will achieve compliance.
 - For purposes of applying this limit, "new consumers" are defined as participants who, at the date of enrollment, are new to receiving the types of services $A_{cashed out@}$ under the demonstration. "Continuing consumers" are defined as participants who had been receiving cashed out services prior to the date of enrollment in the demonstration.

HCFA reserves the right to revisit and modify the methodology for establishing this limit if the demonstration is amended to expand the program statewide.

- R. The budget neutrality agreement outlined in Attachment B is predicated upon the continued existence of the State's 1915(c) waiver.

ATTACHMENT A

GENERAL FINANCIAL REQUIREMENTS

1. The State shall provide quarterly expenditure reports using the Form HCFA-64 to separately report expenditures for services provided under the Medicaid program and those provided through the Independent Choices demonstration under section 1115 authority. HCFA will provide Federal Financial Participation (FFP) only for allowable Independent Choices demonstration expenditures that do not exceed the pre-defined limits as specified in Attachment B.
2.
 - a. In order to track expenditures under this demonstration, the State will report Independent Choices demonstration expenditures through the Medicaid Budget and Expenditure System (MBES), following routine HCFA-64 reporting instructions outlined in Section 2500 of the State Medicaid Manual. In this regard, expenditures subject to the budget neutrality cap will be differentiated from other Medicaid expenditures by identifying them on separate Forms HCFA-64.9 and/or 64.9p, with the demonstration project number assigned by HCFA (including the project number extension, which indicate the demonstration year in which services were rendered or for which capitation payments were made). For monitoring purposes, cost settlements must be recorded on Line 10.b, in lieu of Lines 9 or 10.C. For any other cost settlements (i.e., those not attributable to this demonstration), the adjustments should be reported on lines 9 or 10.c, as instructed in the State Medicaid Manual. The term Expenditures subject to the budget neutrality cap, is defined below.
 - b. For each demonstration year, Form HCFA-64.9 and/or 64.9p should be submitted to report expenditures subject to the budget neutrality cap. All expenditures for the Independent Choices demonstration eligibles shall be reported. The services shall be reported on a date of service basis. The sum of the expenditures should represent the expenditures subject to the budget neutrality cap reported in that quarter.
 - c. For the purpose of this section, the term Expenditures subject to the budget neutrality cap shall include all Medicaid expenditures on behalf of Independent Choices demonstration participants, and those individuals eligible to participate (as described in section 3.c. and d. of this attachment) that are also receiving the services subject to the budget neutrality cap. The services subject to budget neutrality shall include: homemaker services, personal care, respite, adult day health services, environmental accessibility modifications, transportation, durable medical equipment and supplies, chore services, adult companion services, emergency response, attendant care, in-home services, hospice, home-delivered meals, and home health.
 - d. Administrative costs will not be included in budget neutrality, but the State must separately track and report additional administrative costs that are attributable to the demonstration.

- e. All claims for expenditures subject to the budget neutrality cap (including any cost settlements) must be made within two years after the calendar quarter in which the State made the expenditures. During the period following the conclusion or termination of the demonstration, the State must continue to separately identify expenditures subject to the budget neutrality cap, using the procedures addressed above.
 - f. The procedures related to this reporting process, including detailed procedures regarding the tracking and reporting of administrative costs, shall be included in the Operational Protocol to be submitted by the State to HCFA.
- 3.
- a. For the purpose of calculating the budget neutrality expenditure cap described in this letter, the State shall provide to HCFA on a quarterly basis the actual number of eligible member/months for the Independent Choices demonstration eligibles as defined below. This information should be provided to HCFA in conjunction with the quarterly progress report referred to in Special Term and Condition III-D. If a quarter overlaps the end of one demonstration year (DY) and the beginning of another, member/months pertaining to the first DY shall be distinguished from those pertaining to the second. (Demonstration years are defined as the years beginning on the first day of the demonstration, or the anniversary of that day.) Procedures for reporting eligible member/months shall be defined in the Operational Protocol.
 - b. The term, *Eligible member/months* shall refer to the number of months in which persons are eligible to receive services. For example, a person who is eligible for 3 months contributes three eligible member/months to the total. Two individuals who are eligible for 2 months each contribute two eligible member months to the total, for a total of four eligible member/months.
 - c. The Independent Choices demonstration MEG (Medicaid eligibility group) consists of persons residing in the three geographic service areas under the demonstration who: (1) are 18 years or older, (2) meet Oregon's financial eligibility for long term care services, (3) meet Oregon's functional impairment criteria within service priority levels, and (4) are documented to receive services according to the methodology under the State's home and community based waiver.
 - d. The term *Independent Choices demonstration eligibles* refers to persons who are eligible in the three geographic areas of the demonstration and receiving services subject to the budget neutrality cap, whether or not they are participants of the cashed out feature of the demonstration.

4. The standard Medicaid funding process will be used during the demonstration. Oregon must estimate matchable Medicaid expenditures on the quarterly Form HCFA-37. The State must provide supplemental schedules that clearly distinguish between at-risk estimates subject to the cap (by major component) and Medicaid estimates that are not at-risk. HCFA will make Federal funds available each quarter based upon the State's estimates, as approved by HCFA. Within 30 days after the end of each quarter, the State must submit the Form HCFA-64 quarterly Medicaid expenditure report, showing Medicaid expenditures made in the quarter just ended. The Health Care Financing Administration will reconcile expenditures reported on the Form HCFA-64 with Federal funding previously made available to the State for that quarter, and include the reconciling adjustment in the finalization of the quarterly grant award to the State.
5. HCFA will provide Federal Financial Participation (FFP) at the applicable Federal matching rate for the following, subject to the limits described in Attachment B:
 - a. Administrative costs, including those associated with the administration of the Independent Choices demonstration;
 - b. Net expenditures of the Medicaid program and prior period adjustments which are paid in accordance with the approved State Plan; and
 - c. Net medical assistance expenditures made under Section 1115 demonstration authority, including those made in conjunction with the Independent Choices demonstration.
6. The State will certify State/local monies used as matching funds for the Independent Choices demonstration and will further certify that such funds will not be used as matching funds for any other Federal grant or contract, except as permitted by Federal law.
7. Effective January 1, 1999, States are required to submit Medicaid eligibility and claims information to HCFA through the Medicaid Statistical Information System (MSIS). Section 2700 of the State Medicaid Manual details the MSIS reporting requirements. If the State elects to include any expanded eligibility groups in the demonstration at some later date, the State will follow the reporting requirements outlined in the State Medicaid Manual.

ATTACHMENT B

MONITORING BUDGET NEUTRALITY FOR THE OREGON INDEPENDENT CHOICES DEMONSTRATION

The following describes the method by which budget neutrality will be assured under the Independent Choices demonstration. The Independent Choices demonstration will be subject to a limit on the amount of Federal Title XIX funding that the State may receive on selected Medicaid expenditures during the waiver period. This limit will be determined using a per capita cost method. In this way, Oregon will be at risk for the per capita cost (as determined by the method described below) for Medicaid eligibles, but not at risk for the number of eligibles. By providing FFP for all eligibles, HCFA will not place Oregon at risk for changing economic conditions. However, by placing Oregon at risk for the per capita costs of Medicaid eligibles, HCFA assures that the demonstration expenditures do not exceed the levels that would have been realized had there been no demonstration.

For the purpose of calculating the overall expenditure limit for the demonstration, separate budget estimates will be calculated for each year on a demonstration year (DY) basis. The annual estimates will then be added together to obtain an expenditure estimate for the entire demonstration period. The Federal share of this estimate will represent the maximum amount of FFP that the State may receive during the 5-year period for the types of Medicaid expenditures described below. For each DY, the Federal share will be calculated using the FMAP rate(s) applicable to that year.

Projecting Service Expenditures

Oregon shall submit to HCFA a base year per capita cost for the projected enrollee population. This base year per capita cost is subject to approval by HCFA. This cost should reflect all expenditures related to services defined in Attachment A, section 2.c. rendered during the base period for the Independent Choices MEG (i.e. expenditures should be totaled on a date of service basis).

Each yearly estimate of Medicaid service expenditures will be the cost projections for the Independent Choices MEG defined in Attachment A, Section 3.c. The yearly cost projection for the group will be the product of the projected per member/per month (PMPM) cost for the MEG, times the actual number of eligible member months as reported to HCFA by the State under the guidelines set forth in the Operational Protocol.

Projecting PMPM Cost

Projected PMPM cost for the MEG will be calculated by using a pre-determined trend factor of 5.2 percent to convert the base year per capita costs into current year projected per capita costs for each year of the demonstration. The monthly equivalent growth rate is .423336 percent which will be used to convert State fiscal year (FFY) PMPM cost estimates to DY estimates. The agreement to use the 5.2 percent trend factor is based on analysis of State and National data.

Base year

The State shall submit to HCFA base year PMPM costs for the demonstration eligibles, which will be subject to the approval of the project officer. The base year shall be expenditures provided during State fiscal year (FFY) 2000 (July 1, 1999 to June 30, 2000). Final PMPM cost shall be reported to HCFA by December 31, 2000. The base year PMPM costs shall be computed for each of the three geographic service areas under the demonstration by dividing the total expenditures subject to budget neutrality by the number of eligible member/months. Only eligible member/months and service expenditures related to persons who would have been Independent Choices demonstration eligibles, had the demonstration been in existence in SFY 2000, shall be counted for the purpose of calculating base year PMPM costs. The term, Independent Choices demonstration eligible is defined in Attachment A, Item 3.

Using the trend rates to produce non-Federal fiscal year PMPM cost estimates

Because the beginning and the end of the demonstration are unlikely to coincide with either the Federal or State fiscal year, the following methodology will be used to produce DY estimates of PMPM cost. Using the monthly equivalent growth rate, the appropriate number of monthly trend factors will be used to convert SFY 2000 base year PMPM costs to PMPM costs for the first DY. After the first DY, the annual trend factor will be used to trend forward from one year to the next. (This procedure is described more fully in the sample calculations presented below.)

Sample Calculations

First Demonstration Year:

As an example, assume that the base year (SFY 2000) per capita cost for the enrolled population is \$1,000, and the first year of the demonstration (DY 2001) is January 1, 2001, and ends December 31, 2001. DY 2001 is 18 months in time beyond SFY 2000; therefore, the monthly trend factor must be applied to trend SFY 2000 cost forward DY to 2001. Applying the monthly trend factor to bring the base year estimate forward to DY 2001 results in PMPM cost of \$1079. ($\$1079 = \$1000 \times 1.00423336^{18}$)

Second and Subsequent Demonstration Years:

Since DY 2001 is 12 months beyond DY 2002, 12 months of growth factor are needed.

Applying the 5.2 percent growth factor to the estimated DY 2001 PMPM cost of \$1079 gives a DY 2002 PMPM cost of \$1135.

How the limit will be applied

The limit calculated above will apply to actual expenditures for long-term care services, as reported by the State under Attachment A. If at the end of the demonstration period the budget neutrality provision has been exceeded, the excess Federal funds will be returned to HCFA. There will be no new limit placed on the FFP that the State can claim for expenditures for recipients and program categories not listed. If the demonstration is terminated prior to the 5-year period, the budget neutrality test will be based on the time period through the termination date.

Expenditure Review

HCFA shall enforce budget neutrality over the life of the demonstration, rather than on an annual basis. However, no later than 6 months after the end of each demonstration year, HCFA will calculate an annual expenditure target for the completed year. This amount will be compared with the actual FFP claimed by the State under budget neutrality. Using the schedule below as a guide, if the State exceeds the cumulative target, they shall submit a corrective action plan to HCFA for approval. The State will subsequently implement the approved program.

<u>Year</u>	<u>Cumulative target definition</u>	<u>Percentage</u>
Year 1	Year 1 budget neutrality cap plus	8 percent
Year 2	Years 1 and 2 combined budget neutrality cap plus	3 percent
Year 3	Years 1 through 3 combined budget neutrality cap plus	1 percent
Year 4	Years 1 through 4 combined budget neutrality cap plus	0.5 percent
Year 5	Years 1 through 5 combined budget neutrality cap plus	0 percent